

<p align="center">2003 - 2004 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Major Facilities Fund

The Major Facilities Fund is part of the Municipal Water System capital program. This fund receives fees associated with the connection and operation of municipal water activities for major water facilities constructed in the North San José, Evergreen, Alviso, Edenvale, and Coyote areas. Developer's fees are paid for the future construction of large water mains, reservoirs, and other large projects.

Major Facilities Fund

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 191	\$ 170	\$ (21)	(11.0%)
<i>Expenditure</i>	1,353	537	\$ 816	60.3%
<i>Fund Balance (est. *)</i>	3,993 *	3,917	\$ (76)	(1.9%)

The negative revenue variance (\$21,000) resulted entirely from lower than budgeted Major Facilities Fees (\$42,000), partially offset by higher than budgeted interest earnings (\$21,000). These reduced fees reflect lower than anticipated levels of development in North San José.

Expenditure savings (\$816,000) occurred primarily due to the continuation of projects into 2004-2005. As part of the 2004-2005 Adopted Capital Budget, a total of \$848,000 was rebudgeted for the Edenvale Well #4 (\$448,000), and Gold Street Main Relocation (\$400,000) projects. However, the Gold Street Main Relocation appropriation did not achieve sufficient year-end savings to cover the original rebudget amount. As a result, a budget reduction is recommended in this document for that (\$149,000) project.

Also included in this document is a recommended rebudget of expenditure savings of \$13,000 to 2004-2005 for Edenvale Well #4 project to fund the continuation of this project into 2004-2005.

The negative fund balance variance (\$76,000) resulted from the combination of lower than estimated revenues (\$43,000) and higher than estimated expenditures (\$33,000). The Major Facilities Fee revenues fell below the estimated levels by (\$42,000). On the expenditure side, the Gold Street Main Relocation project did not achieve sufficient year-end savings to cover the rebudget amount included in the 2004-2005 Adopted Capital Budget. As described above, a downward adjustment to this appropriation is recommended in this document. Factoring in this adjustment results in a positive impact to the 2004-2005 ending fund balance.